Buettner: This letter is required for any firm. We documented it.

McConnell: Back to systems discussion: As we have converted the systems to Pittsburgh, we have been sensitive to the impact on the employees. General Accounting had three months' increase. Payroll conversion is different. We have converted the Payroll to our software in Pittsburgh. People in Philadelphia (from old Hahnemann) are major problems. We will not give them any early warning notice (DK knows). They will have appropriate severance. I have no confidence in our ability to control the damage they could do. After two years of observing things in that area, I am concerned. It is not our style, but I wanted you to be aware of it.

Abdelhak: This is based on your experience, so I don't think anyone could expect you to do anything differently. One dozen people.

IV. C. Audit Services Review

Schrecengost: Introductory comments. In general, very high level of compliance. We used dual manual signatures - really went into effect July 1. We will implement policy of EFT. Policy was just summarized during the past year. Have more exceptions under EFT, but they are additional issues with respect to consolidation of bank accounts. Have talked with Treasury, and they will be clarifying their policy.

Cook: What is the percentage of payables being paid by EFT? Do you have a target in that area?

Schrecengost: I think there is an increase in the trend. Thinks that we expect to increase, have been set up as repetitive EFT's. I would expect only non-routine items in the future.

McConnell: On a cash basis, excluding payroll, we are probably at 50%.

Abdelhak: How many disbursements per month?

McConnell: (   ).

IV. D.

Schrecengost: Although we normally discuss the composition of the staff on an annual basis, we had a substantial number of new individuals join the department. We have an excellent group. Continue to add to the diversity of skills. Number of projects is close to a record. Have experienced group, which has been together for a while.

Summary of individual projects is presented. Have high degree of acceptance. Indications are that we are auditing the right things. We are continuing to use the computer as an audit tool.

Barnes: Anything of particular serious consideration?

Schrecengost: There is an increasing emphasis on the part of Audit Services to look at billing related matters. Some of these audits have put us into better compliance and have identified revenue opportunity. Have also been working more closely with Human Resources this year.

Abdelhak: We had a problem with significant overpayment of benefits. Significant - totaling over $3 million. The people in Human Resources requested the audit, and Diane identified the difficulties. They have since dealt with them and resolved it. A number of individuals had to be released, and some policies had to be adjusted. Some more will have to be done. We have received bills from insurance companies that included bills that were not accurate. We will have to reverse our approach and think about generating our own data rather than the invoice from the insurance company. David and Diane are satisfied that it was addressed appropriately by the people in Human Resources, and we need some adjustments there.

Hilton: Comment: Regarding the summary, I noticed that management agreed in most instances, and it appeared you don't have any difficulty with differences of opinion.

IV. E. <u>Information Services Security Update</u>

McConnell: Trying to give a sense of global security. If you find it helpful, we will continue this format.

III. A. Minutes approved.

III. B. <u>Report on the Audited Financial Statements</u>

McConnell: Focus on AHERF numbers. Tab A, Page 3 - consolidated balance sheet cash has declined. Page 6 highlights there how cash comes and goes. Detail to focus on receivables, which deserves focus. Organization is $31 million excess, but if you add back depreciation of $84 million, netted out by the $70 million receivable increase with all other comings and goings, we provided cash of $61 million this year. $122 million spent on capital items. Significant investment in the

organization. Large portion of the capital was in Pittsburgh. Financed $100 million for AGH to finance capital expenditures. Through June 30, we are paying down the lines of credit and have paid down long term debt. We have reinvested the cash that was outstanding in the organization.

Barnes: When we get the Eastern receivables shaped up, should we be able to get out of hock in the east?

McConnell: Manage the lines of credit on a daily basis. Yes, it is the intent to get out of the lines of credit. Long term debt which we intend to finance over the next quarter. Page 3 - With the increase of receivables, we increased our allowance for collectible accounts from 37 to 48. We will do everything we can to collect them but thought we should state our balance sheet in this way.

Barnes: An important thing on this position is that if you let your receivable slip to lose money but here these are with insurance companies but because it is insured you don't lose principal.

McConnell: 95% - 98% of our collections from some sources other than patients.

Abdelhak: They have varying policies and what we would do is if you have a payroll to focus on that is what they do. David manages very carefully so that we do not lose any opportunity.

McConnell: Have some details that part of the receivables growth is that with the increase of services in the organization, are patients that are discharged but not able to be final billed. On the inpatient side of the receivable growth, some patients are still in the hospital. Outpatient side is interesting. Have seen explosion - this is up across the system about $9 million. Much is related to growth. Also related to resources which are being improved with new employees. On balance sheet side, no other significant comments.

Next page, Consolidated Statement of Revenue and Expenses - excess of $30.1 million. Loss from operations is almost cut in half from 94-95 - this is the largest bottom line we have had in the organization in the past six years. Most of the consolidated numbers in the past year were in the $15 million range. This has been our strongest year in quite some time.

Cook: As the Delaware Valley representative to the Committee, thank you for your continued confidence in the Delaware Valley, but on Page 23, I am delighted to see that the income from operations from the Delaware Valley is about $20

million, net for 95.

McConnell: Every organization had their contribution. Any questions?

Cook: Asked about SMS - is that designed to help us with receivables?

McConnell: Yes, registration information, insurance information.

Abdelhak: It is part of David and Diane's growth initiative.

Hilton: Page 23 - Non-operating gains shown under AHERF - is that investment income from pension fund?

Abdelhak: No, pension fund does not show up here. Just investments.

Hilton: What portion do you show as opposed to AGH?

McConnell: At least half of that is AGH. If you go back to AHF, we moved endowments and working capital - these are now in AHERF. Page 22.

Barnes: Any more questions. Page 8, resolution.

III. C. Report on Internal Controls

Buettner: Page 10 - Letters issued on internal control for the organizations that file Medicare Cost Reports and provide a letter for AH consolidated. And we indicate that we did not discover any type of material control weaknesses. Third paragraph, it is defined. This will be used by the organization in terms of the Medicare Intermediary.

____?____ Resolution, Page 9.

Offer of Executive Session.

Management, Yes.

Coopers & Lybrand, No.

Abdelhak: There is a summary of management expenses which is provided to the Audit Committee each year, and that is the only thing on the Executive agenda.

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Transcription date: 2-6-02

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EXHIBIT 4

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Transcription of Shorthand Notes of Carol Gordon - Audit Committee, April 8, 1996

NOTE from transcriptionist:

( ) means I did not write anything in that spot at the meeting.

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10:00 Meeting began.
Summary of Discussions

III. A. Minutes

One correction: Page 3 B, "strangest year".

III. B. C&L Audit Plan

Buettner: Bill stated that the document presents their plan for 1996. Two points to outline: (1) From an overall plan development, they have followed process that Diane outlined. Met with members of management; developed their own risk assessment and allocated efforts of various people necessary. Page 9 are 4-5 areas to spend time on. From a people standpoint, he is again the engagement partner. Has four partners who are working with him. Listed them: Jeff replacing Howard von Schaven. Assisting Jeff is Larry Blair, Phil Camp, Managed Care Specialist. Bob Forrester, partner in Regulatory Compliance.

In terms of overall effort, see Page 14 - in developing their plan, they talked to financial management and operational management to review risk analysis similar to Diane's.

Barnes: Asked Diane to work up a work plan (high risk items)

Chart

	Year	Year	Year
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...and he wants to see what is not looked at, that is, list high risk items and what year we looked at them. Put it together with internal audit items and external audit items. Bill said they spend time in those areas each year, but the emphasis will change.

Thomas: In the lowest risk category, asked about cash in banks vs. cash in process. It is banks.

Buettner: Spending roughly 2/3 of their time in the higher risk areas - going to expand procedures in revenue billing and control areas. Any questions through page 24?

Buettner: Page 25, they have listed their audit scope by entity and fees for 1995 and proposed for 1996. There are some additional scope requirements. Last page is a pro forma fee schedule assuming that Delaware Valley debt refinancing occurs in May, 1996.

Cook: Asked about total fees paid to C&L, audit and non-audit.

Buettner: Bill said ballpark would be $200,000 - compliance billing; workers' compensation between $200,000 - $300,000. Total $900,000 - $1 million for audit and special projects.

McConnell: Have started to bring in other fellows for non-audit work. Have some diversity.

Section approved.

III. C. <u>Internal Audit Workplan</u>

Schrecengost: Diane said 1996 workplan was aggressive: focused on billing HR revenue and expect additional progress toward the end of the year. The Pittsburgh workplan suffered from some unplanned staffing vacancies. In Philadelphia, they followed the workplan better. Think they are well balanced with risk and prioritization and made the best use of their resources. For 1997, followed the same board-approved risk assessment methodology. Proposed plans for 1997 and 1998 represent a broad area of AHERF capabilities.

Gordon note: Focusing on additional revenue reviews. Diane thinks if they follow workplan that will reduce AHERF's business risks, improve controls, and promote efficiency and effectiveness.

Schrecengost: Any questions?

Barnes: Talked about IS programs and there are two questions: Is it moving along in terms of improved control?

McConnell: From his perspective, the base systems (general ledger, accounts payable, payroll) are all in Pittsburgh and are pretty stable and have pretty good controls. Weakest is accounts payable system, which is linked with Baxter, and we are trying to get better. More than adequate from a control standpoint.

Cook: Are we able to provide operating managers with reports on a timely basis?

McConnell: Think we are in decent shape; financial information is accurate and timely. Question is level of detail. What we are lacking is detail from the Baxter system.

Bland: Think there is no doubt that the central infrastructure is okay. We are now at the point of implementing the admissions, discharge, transfer module and are just getting to the clinical applications. They are ready to benefit and to take the good attributes of this system and use them, but they are not there yet.

Kaye: Thinks his situation is such a diverse grouping and type of systems - base system is good - applications at each hospital are different and AIHG is different. Problem is while they get overall statements - when they try to look at different bases, there are varying degrees of difficulty.

McConnell: Bucks and Elkins came up on the patient accounting system in December. Their old systems were terrible, and when we converted software we moved people to Pittsburgh. We know software works, so from a basic control standpoint it is there. From a management reporting standpoint, we are still working on it. Hahnemann is on an older version of the SMS system, which is close to becoming a weak link and will be changed over soon. From overall control standpoint, the way I view it, the core systems have better than adequate, way better than average control. We are now focusing on distributed systems - mentioned March survey that IS sent out so that we can assess what they have and don't have. After reviewing list, I think they might ask IS for more help. I think it will take 12 months to get all of that information back to us. From core system standpoint, I think we are okay. We are moving toward a corporate standard; question is one of resources, but we have to keep everything moving forward.

Barnes: Asked about core systems.

McConnell: General ledger, accounts payable, payroll. Next set is billing, registration, charge entry. These are big and complicated.

Barnes: What about billing? Receivables are up from June to December.

McConnell: It is not a software issue. There are a lot of issues surrounding the conversion, getting 100 more people in Pittsburgh than we had doing it in Philadelphia. We are at about 90 days since March. AGH receivables have continued to decline and are now at 50 days. We are still trying to figure out why Pittsburgh billing works better than Philadelphia. Delaware Valley 110 days, average 90 days. Block is medical insurers. Talked about dealing with Blue Cross in Pittsburgh and in Philadelphia Independence Blue Cross and Aetna. These are relationships that were in place before we got there. Both are uncooperative. Have had significant issues.

Thomas: Asked Calvin how many direct reports he had that deal with billing. Asked about Pittsburgh. Tony has more. Some Audit Committees, as a means of emphasizing controls down the line, come to the Audit Committee and it helps reinforce the controls we are putting in. They talk about what they are doing in response to what CEO is asking them to do.

McConnell: Back to core systems: mainframes continue to move forward. Convinced that software works.

Barnes: When will this be stable?

McConnell: 24 months. We have tried to pick the biggest vendors.

Cook: Asked about the Bala Cynwyd shutdown.

Schrecengost: Explained about the move to Center Square.

McConnell: At the last meeting, one member asked for a look back at prior year's workplan. Hopefully, you will find pages 33-34 helpful.

Resolution approved.

III. D. Budget

Schrecengost: Report provides information as to how we performed compared to last year's budget. Proposing same budget for next year. Will absorb increases by reduced spending. Had experienced staff last year but lost several of our people to other opportunities and have replaced them with people of less experience. In 1997, we established three goals which will help to leverage our audit resources. We are going to pilot a management sub-audit concept - management will be able to audit their own area. Plan to highlight that in distributed IS as well as some finance areas. Also want to take some time to aggregate policies in support of corporate compliance program. Need to know our commitment to protecting against violations of the law - this would be valuable if I have need. Also plan to concentrate additional resources on new areas and reinforce the idea that each management person performs an audit activity on their work.

Cook: In Pittsburgh, your head count has two Senior Directors and Delaware Valley has one.

Schrecengost: Talked about staff.

Barnes: Lot of pressure to control costs and at the same time there is internal pressure to compliance - how do you feel about the costs?

Schrecengost: You could argue that you could audit everything if you had more auditors. She thinks we strike the right balance for high risk areas of the organization. Thinks it is important that management recognize their responsibility in controlling systems, and as we expand our efforts in this area balance is better. We benefit from a very cooperative arrangement.

Kaye: Finds Internal Audit to be extremely helpful; sometimes they do act as internal police force and help us maximize revenue, and I am very happy with them.

Resolution moved and seconded.

Information Items

IV. A. Office of Billing Compliance

McConnell: We have pretty much covered it.

Thomas: Is it a separate group?

McConnell: It will be a discrete person because I believe it is more than a full time job. Physicians cannot have operational responsibility. Bringing it to you to let you know what we are trying to do. This was required after the Penn settlement. We are doing it because we think it was a good suggestion. Have asked Diane to head up getting it off the ground. Insure what type of person to do this.

IV. B. Emerging Issues

Buettner: Page 52. We have listed certain items that management would have to address in 1996-97. There are some accounting issues, and we have worked with management - reports in 1996 will conform with these statements. 124 will be addressed in 1997. Other items, SOP 94-3 is not a problem.

Continued to review some of these items. Said we are very comfortable that we are addressing them. Page 154 - we have talked about this. Have also outlined certain items for OIG and IRS to focus on.

C. Profile

Schrecengost: Letting you know who my staff is and what their professional certifications are. Have had some turnover and are fully staffed. Management group is stable.

Generally, the new people are experienced from other auditing firms, have prior experience with AHERF, or whatever. Did not lose too much because of the transition of individuals

Thomas: Asked about chart, noting group labeled "financial operational" - IS in Pittsburgh, Medical Auditor in Philadelphia.

Schrecengost: That is because Medical Auditor in Pittsburgh falls into patient accounting function in Pittsburgh. In Delaware Valley, the Audit Department does it. IS auditors travel back and forth and cover both sides of state.

D.

Schrecengost: Any questions?

Thomas: What about things where there is no action taken?

Schrecengost: If there is a sufficient lack of progress, those are re-audited, and we come back until we achieve the control objective.

E.

McConnell: We have covered what I intended to say in this report. We continue to focus on it. This report is here to tell you what we are doing.

<u>Executive Sessions</u>
Internal Audit - No.
Auditors - No.
Management - Yes

Thomas: General question: Asked about charter.

___?___ Yes, we have it.

Thomas: Do we have any annual review of those responsibilities and written report indicating that they have all been discharged?

___?___ Think that is not a bad idea. List responsibilities, list when they are handled.

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Transcription date: 12-11-00

EXHIBIT 5

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Transcription of Shorthand Notes of Carol Gordon - Audit Committee, October 15, 1996

NOTE from transcriptionist:

( ) means I did not write anything in that spot at the meeting.

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Meeting began 10:00 A.M.

No additions to the agenda.

III. A. Summary of Discussions

Summary approved as presented. No resolution.

III. B. 1996 Audited Financial Statements

Buettner: We performed our audit work in accordance with the plan given to the committee in April and followed that plan without any unusual items or surprises. Year of significant change from a financial reporting perspective, because the organization instituted three significant accounting pronouncements which required some restating of prior year (see auditor's opinion, Page 1 of financial statement booklet). Statements 116 and 117 are required statements for all not-for-profit organizations. Net impact of that statement was to have the net assets of the organization increase by $50 million from prior years under the understanding that certain endowment funds held in other organizations should be reflected on the books for permanent endowment. Statement 125 deals with accounting for investments, and that requires that the organization report all investment activity on the balance sheet at fair market value. During the current year, the adoption of that statement was roughly $15 million. We were very comfortable with the process that management followed. Have given a clean opinion above and beyond the adoption of those three statements.

Regarding 124, this requires that investments be reflected in a statement of activity (income statement). Doesn't matter how you manage your portfolio, but you have to go through your income statement. The new Health Care Audit Guide will permit hospitals to account for investments in a manner similar to banks. This is on an annual basis. (Much discussion at this point).

Barnes: How much principal do we have invested?

Abdelhak: Maybe David could bring forth a recommendation after his consultation with Coopers & Lybrand.

Barnes: ....Discussed the value of the endowments - has potential to take a hit in a book loss.

Abdelhak: None of us have an interest in explaining things that we don't have to, whether it is a gain or a loss.

Hernandez: Recommend that we not repeal our investment policy - want to keep these things out of the income statement.

Hilton: Basically, we are not in the trading business.

McConnell: Yes, all portfolios are held for the long term.

Buettner: Assets subject to this rule on the balance sheet are at $48 million. Page 3, assets that are not long term are $562 million. Footnote Pages 12-13 tells how much is in common stock.

Abdelhak: Another couple hundred million that will come from the mergers, so we are up to $8-9 hundred million. David will have a recommendation.

Barnes: Even if we work around the P&L issue, still hate to see a decline in net worth some year.

Buettner: We were not in favor of it. Same rule as banks - their equities are up and down because of interest rate changes.

Buettner: Those three pronouncements have been addressed. This is why we have a single year financial statement also. On Page 4 of the income statement, the organization went through a retirement of debt. Loss of $32 million incurred under the accounting rues. Below the line. Also shows the impact of 124 adopted change in accounting for investments. Other items in the comment letter in terms of work on receivables, but those are the key points.

Hernandez: Talked about the reason for a one-year financial statement.

McConnell: Thought it easier to focus on one year because of the change in accounting rules.

Thought it more appropriate to show one year - debt markets are more interested in the current year - this is management call.

Buettner: Footnotes include new disclosure because of the adoption of 116 and 117, and we are comfortable with this.

McConnell: Overall comments: This year again we were able to produce internal financial statements that were submitted to the auditors and audited as presented to them and did not have any significant changes. Staff is able to keep abreast of accounting regulation changes, and other work is accurately reflected. Second point with restatement - On Page 4, we continue to talk about what are the true operating returns and with the new format we are able to put all revenue in the revenue section above the line with expenses below the line, so you can read it more clearly. Bill covered everything else.

Any questions?

Also, for all subsidiaries, Obligated Group required reports in the book and are consistent with what has been submitted to the various buyers. For AGH Obligated Group, Page 50, Delaware Valley obligated Group, this is a new format. In the past, we had to present audited Obligated Groups, but with the restructuring of the debt completed in June, this is much easier. AIHG - management suggested we should have AIHG audited because it was so rapidly growing, and did this for internal purposes. ASRI is stand alone, which is necessary due to the research grants. Turn to Tab F - We have required notification from auditors with respect to the debt, which is perfunctory but very important. Any questions on financial statements?

Barnes: It was a pretty tough year financially, experiencing (a) rapid change in the industry, and (b) institutions' reaction to the rapid change, i.e., our occupancy and use level in Delaware Valley vs. market occupancy and use level.

Abdelhak: First level of adjustment after we approved the budget was \$82 million of medical adjustments, roughly \$68 million is non-recurring, and that includes the gains, so it is 82 minus the gains. One time adjustments that we absorbed. AGH had \$1 million because of the Blue Cross contract, because Blue Cross moved 500,000 people. Cost AGH \$27 million. Medicare moved their budget \$20 million. These kind of non-recurring, and in spite of that we had black bottom line. Initially, we anticipated making \$40 million. So initially we made \$88 million from the base of the budget. As far as the market share is concerned, our facilities have seen a 6% increase in market share and competitors have seen